

**REPORT OF THE AUDIT OF THE
LOGAN COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 8, 2008 Through April 14, 2009**

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LOGAN COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
April 8, 2008 Through April 14, 2009

Douglas R. Wise & Company, PSC has completed the audit of the Sheriff's Settlement - 2008 Taxes for Logan County Sheriff for the period April 8, 2008 through April 14, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$9,961,141 for the districts for 2008 taxes, retaining commissions of \$330,009 to operate the Sheriff's office. The Sheriff distributed taxes of \$9,604,094 to the districts for 2008 taxes. Taxes of \$322 are due to the districts from the Sheriff and refunds of \$0 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Logan Chick, Logan County Judge/Executive
Honorable Wallace Whittaker, Logan County Sheriff
Members of the Logan County Fiscal Court

Independent Auditor's Report

We have audited the Logan County Sheriff's Settlement - 2008 Taxes for the period April 8, 2008 through April 14, 2009. This tax settlement is the responsibility of the Logan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Logan County Sheriff's taxes charged, credited, and paid for the period April 8, 2008 through April 14, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Logan Chick, Logan County Judge/Executive
Honorable Wallace Whittaker, Logan County Sheriff
Members of the Logan County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

August 5, 2009

LOGAN COUNTY
WALLACE WHITTAKER, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 8, 2008 Through April 14, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,206,759	\$ 1,348,852	\$ 4,007,444	\$ 1,132,497
Tangible Personal Property	262,383	210,659	618,727	953,855
Fire Protection	3,067			
Increases Through Exonerations	592	790	1,677	556
Franchise Corporation	102,503	85,399	214,588	
In Lieu of Tax	15,829			
Additional Billings	303	349	933	284
Oil and Gas Property Taxes	12	12	35	11
Limestone, Sand, and Mineral Reserves	348	368	1,798	326
Bank Franchises	86,750			
Penalties	9,419	9,226	27,868	7,930
Adjusted to Sheriff's Receipt	(457)	(430)		(443)
Gross Chargeable to Sheriff	<u>\$ 1,687,508</u>	<u>\$ 1,655,225</u>	<u>\$ 4,873,070</u>	<u>\$ 2,095,016</u>
<u>Credits</u>				
Exonerations	\$ 4,211	\$ 4,680	\$ 14,321	\$ 4,003
Discounts	25,291	24,464	71,746	35,093
Delinquents:				
Real Estate	23,836	26,611	89,709	22,347
Tangible Personal Property	490	388	1,514	943
Uncollected Franchise	6	5	20	
Total Credits	<u>\$ 53,834</u>	<u>\$ 56,148</u>	<u>\$ 177,310</u>	<u>\$ 62,386</u>
Taxes Collected	\$ 1,633,674	\$ 1,599,077	\$ 4,695,760	\$ 2,032,630
Less: Commissions *	69,719	67,961	105,655	86,674
Taxes Due	\$ 1,563,955	\$ 1,531,116	\$ 4,590,105	\$ 1,945,956
Taxes Paid	1,559,736	1,527,567	4,576,592	1,940,199
Refunds (Current and Prior Year)	<u>4,169</u>	<u>3,382</u>	<u>13,460</u>	<u>5,705</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 50</u>	<u>\$ 167</u>	<u>\$ 53</u>	<u>\$ 52</u>

* And ** See Page 4

The accompanying notes are an integral part of this financial statement.

LOGAN COUNTY
WALLACE WHITTAKER, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
For The Period April 8, 2008 Through April 14, 2009
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	5,255,381
2.25% on	\$	4,695,760

** Special Taxing Districts:

Library District	\$	28
Health District		8
Extension District		126
Soil Conservation District		<u>5</u>
Due Districts or (Refund(s) Due Sheriff)	\$	<u><u>167</u></u>

LOGAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 14, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Logan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LOGAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 14, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Logan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 14, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 25, 2008 through April 14, 2009.

Note 4. Interest Income

The Logan County Sheriff earned \$22,832 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of August 5, 2009, the Sheriff was due a refund of \$378 from the Logan County Board of Education and \$507 from the Russellville School District and owed \$751 to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Logan County Sheriff collected \$42,742 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of August 5, 2009, the Sheriff owed \$8 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Logan County Sheriff collected \$1,175 of advertising costs and \$3,320 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Logan Chick, Logan County Judge/Executive
Honorable Wallace Whittaker, Logan County Sheriff
Members of the Logan County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Logan County Sheriff's Settlement - 2008 Taxes for the period April 8, 2008 through April 14, 2009, and have issued our report thereon dated August 5, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Logan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Logan County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Logan County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Logan County Sheriff's Settlement – 2008 Taxes for the period April 8, 2008 through April 14, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Logan County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Logan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

August 5, 2009

COMMENT AND RECOMMENDATION

LOGAN COUNTY
WALLACE WHITTAKER, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 8, 2008 Through April 14, 2009

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we noted the Sheriff's office lacks adequate segregation of duties over receipts and disbursements. The Sheriff's bookkeeper collected money, prepared deposits, prepared monthly tax reports and reconciled taxes collected on a daily basis. The Sheriff's bookkeeper reconciled the bank statement monthly. No compensating controls were noted to offset any of these control deficiencies.

Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording, and reporting of tax receipts and disbursements. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare daily bank deposits with the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled on paper and kept for records. He could document his comparisons by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts ledger and disbursements ledger. Any differences should be reconciled on paper and kept for records. He could document his comparisons by initialing the monthly tax reports, receipts ledger, and the disbursements ledger.
- The Sheriff should recount and deposit cash. He could document the recount by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Tough to achieve with only one office personnel and lack of funding.